



**ШАРЫН ГОЛ**  
ХУВЬЦААТ КОМПАНИ

**Ж И Л И Й Н Т А Й Л А Н**

**2 0 0 8**



**A N N U A L R E P O R T**

**2 0 0 8**



**SHARYN GOL**  
JOINT STOCK COMPANY

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# Message from Chairman

**Dear Shareholders!**

The Shareholders of "Sharyn Gol" JSC, we are going to hold a meeting soon discussing our company's working productivity in 2008 and making the specific decision. Prior the shareholders' meeting, company's functional situation in 2008 is being introduced to all of you.

This year the miners stripped total 2,384.9 thousand m<sup>3</sup> of the earth, sold 545.6 thousand tons and fulfilled our duty successfully supplying with Power Plants in Darkhan and Erdenet cities and as well as other our contracted customers with the coal.

We couldn't fulfill completely the basic plan which was approved in beginning of the year due to the several reasons such as backwardness of earth-stripping for many years, obsolescence of equipments and machinery and the financial problem. It should be mentioned that the normal production activity was affected negatively by uneven supply of fuel and spare parts that was occurred by following reasons as our extracted coal was sold by unreal price which was established by the Government, coal weigh which was supplied to the main customers was decreased and the payment was not paid on fixed time.

In 2008 it was expected to get the income of 9,458.8 million tugrugs in the budget but the sell was 11,005.4 million tugrugs. Total expense of 10,971.7 million tugrugs was expected but there was the expense of 10,944.3 million tugrugs.

In 2009 the exploitation condition is becoming harder and facing with the problem that the new technology should be invented and the broadening, the change is required for the Market as well.

I would like to emphasize that your active function will be remarkably important for the goal implementing in 2009.

B.Batmunkh



## COMPANY ORGANIZATION

### Board of Directors

**CHAIRMAN:**

**B.BATMUNKH**

- Advisor, National Investment Bank of Mongolia
- Born in 1974

**MEMBERS:**

**J.BATBOLD**

- President, Sharyn Gol Energo LLC
- Born in 1964

**D.BATMUNKH**

- Executive Director, National Investment Bank of Mongolia
- Born in 1974

**D.BAILIIKHUU**

- Advisor, State Property Committee
- Born in 1947

**TS.GANBAT**

- Executive Director, Sharyn Gol Trading LLC
- Born in 1975

**B.OTGONBAATAR**

- Executive Director, Green engine LLC
- Born in 1980

**D.DAYANBILGUUN**

- Executive Director, BDSec LLC
- Born in 1976

**J.PASSIN**

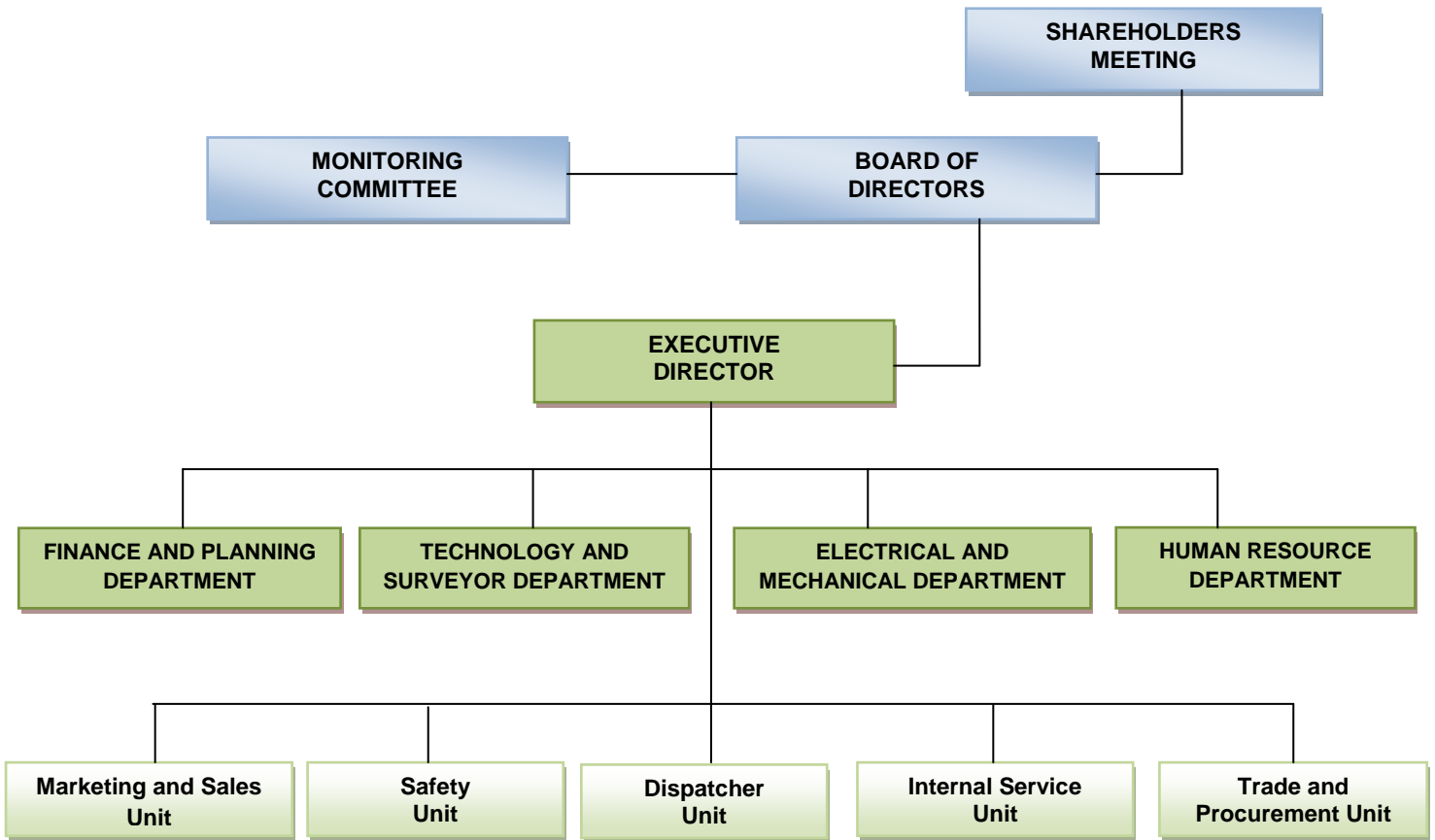
- Portfolio Manager, Firebird Management LLC

**SH.ENKHBAYAR**

- Executive Director, Nomin Holding LLC
- Born in 1975



## Organization

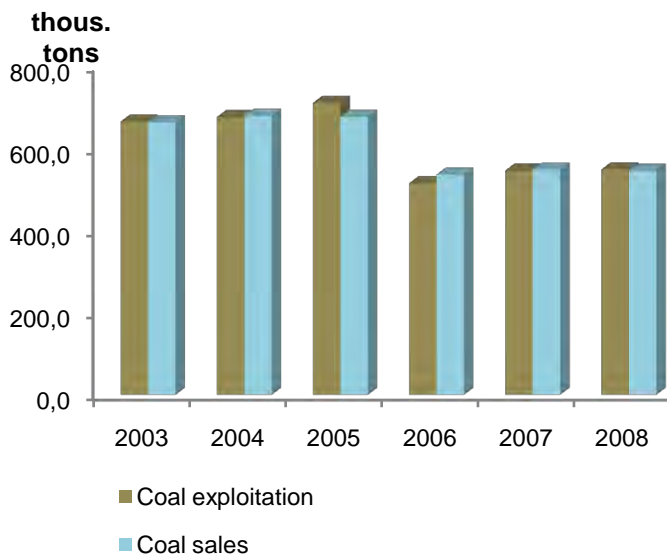


## OPERATIONAL AND FINANCIAL HIGHLIGHTS

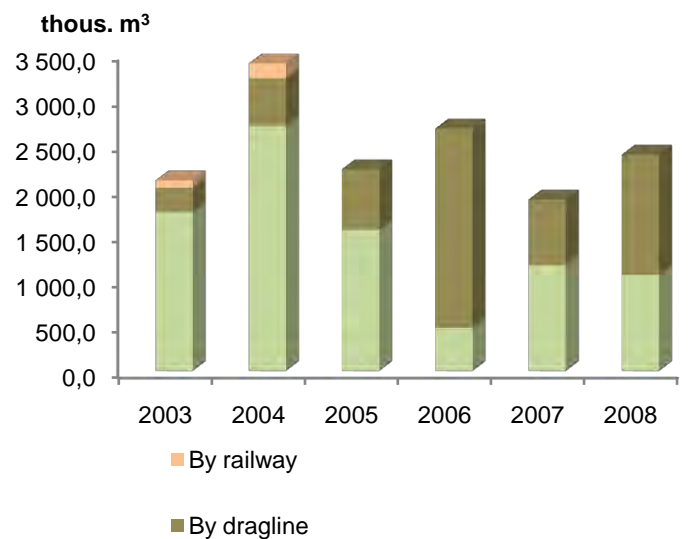
### Operational highlight

Highlight	m.unit	2008	2007
Coal exploitation	thous.tons	548,30	545,70
Coal sales	thous.tons	545,60	547,90
Overburden	thous.m <sup>3</sup>	2 384,90	1 888,80
By autotransport	thous.m <sup>3</sup>	1 059,60	1 164,00
By dragline	thous.m <sup>3</sup>	1 325,30	724,80
Total earth moving	thous.m <sup>3</sup>	2 806,70	2 308,60
Total drilling	thous.l.m	45,40	47,40

**Coal exploitation and Coal sales**



**Overburden**

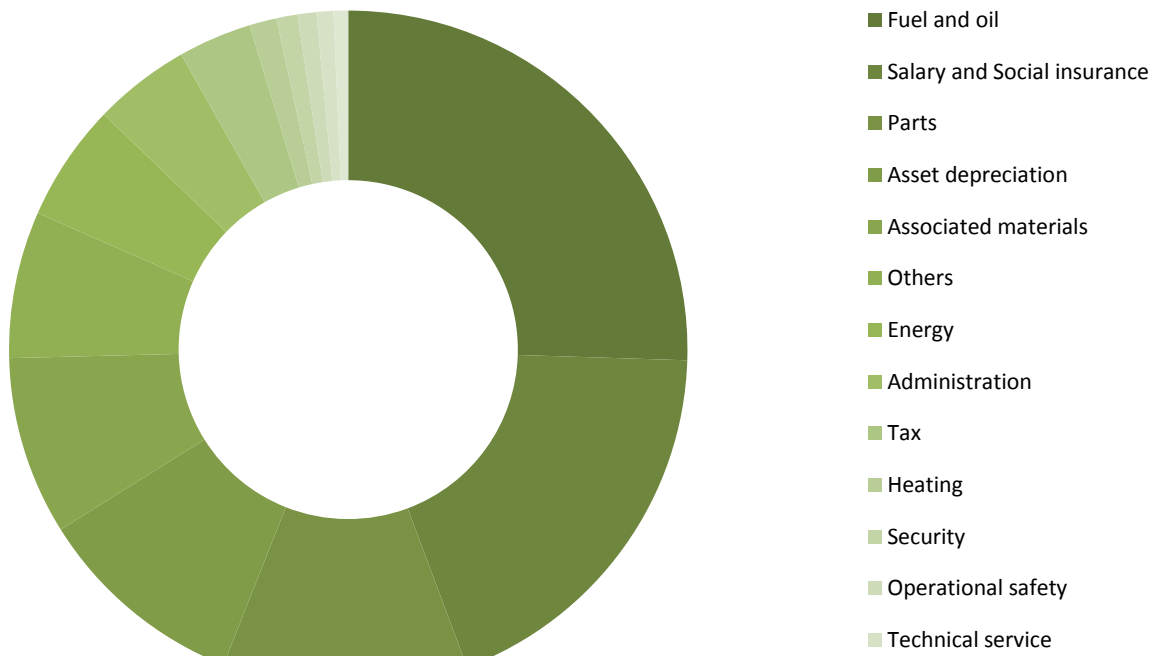


## Financial highlight

In thousand of tugrugs

Highlight	2008	2007
Sales	10 626 651,00	8 198 831,40
Sales cost	10 052 117,50	7 776 180,90
Profit before tax	574 533,50	422 650,50

### Cost structure



## FOCUS ON 2008

## Mining work and coal production

Highlight	Total	Openpit	Underground
		Central and North wall	Floor

<b>Coal production (thous. tons)</b>	<b>548.3</b>	411.3	129.5	7.5
<b>Overburden (thous. m<sup>3</sup>)</b>	<b>2,384.9</b>			
<b>Movable resource (thous. tons)</b>	<b>100.0</b>			

In 2008 total of 2,384.9 thousands m<sup>3</sup> earth stripped, 548.3 thousand tons of coal extracted and the year was passed with movable resource of 100.0 thousand tons of coal. 411.3 thousand tons of coal was extracted from wall of Central and North, 129.5 thousand tons of coal from floor by open pit method and 7.5 thousands tons of coal from 8-11 line by underground method.

Although, equipment insufficiency and drilling machines breakdown influenced to failure to fulfill mining plan, EKG-4U excavator accomplished earth stripping work and fulfilled dragline plan.

As risk of landslide was due to increase of earth layer thick on coal strata, managed working scale for excavators to 45-50 meters. On the purpose of to carry out the earth-stripping at the lowest cost, relying on technical possibility in our operation, thanks to transferring the central road of coal transportation was removed, there could have the internal pile space for 300 thousand m<sup>3</sup> of earth and on the result of that, the effective technical measurements were taken place and implemented such as the transportation distance of pile earth was brought near at 1 km.

Accomplished installation of conveyor system with length of 750 meter for coal transportation and expanded coal delivery field of conveyor bunker through road moving. Renting dumptrucks for earthmoving and coal transportation made important contribution to mining work.

In 2008 blasting materials consumption for 1 m<sup>3</sup> earth was raised more than previous year. Because blasting materials for well was increased to improve crush of hardrock in earth level on the top of coal strata of north block and central sides.

The important result of mining work in 2008 was that fulfilled coal exploitation and earth stripping plan in winter time and passed with 100.0 thousand tons of coal however, equipment insufficiency and breakdowns led to lost period of earth stripping for preparing coal resource in 2009-2010.

Mining work in 2009-2010 fully conducts preparing to shift the mining technology from opencast into underground.



## Finance

### Sales

In 2008, coal price for Power plants was 16,600 tugruks in the Business plan. The Ministry of Fuel and Energy decided to increase coal price from July 16 by 3,321.1 tugruks to 21,400.0 tugruks and sales revenue rised by 828.1 million tugruks. Also coal was supplied to Power plants more than the contracts amount and 121.7 million tugruks was gained from coal calories.



	(thous.tons)		(thous.tugrugs)		ton (tugrug)	
	Exp	Perf.	Exp	Perf.	Exp	Perf.
<b>Jan-Jun</b>	250.0	303.8	4,582,640.0	5,468,844.2	18,330.6	18,001.5
<b>July-Dec</b>	250.0	241.8	4,757,360.0	5,155,805.4	19,029.4	21,322.6
<b>Total</b>	500.0	545.6	9,340,000.0	10,624,649.6	18,680.0	19,473.3

## Revenue and Expense

The company revenue was 11,005.4 million tugrugs, the expense was 10,944.3 million tugrugs and the profit was 61.1 million tugrugs in 2008.

Production cost increased by 465.4 million tugrugs than the fuel price growth, increased by 1784.0 million tugrugs than the fulfilled mining work cause of increased scale amount compared with the year 2007 and total coal production cost saved by 685.5 million tugrugs compared with expected cost. From the expected expenses, real estate depreciation, security and wagon exploitation were exceeded and other expenses were saved. In 2008 the company had 553 workers, total salary expense was 1,830.7 million tugrugs and one worker's average salary per month was 275.9 thousand tugrugs. For the spare parts it was exceeded in previous years but in the current year it was saved by 870 million tugrugs.

## Cost

1m<sup>3</sup> of mining solid cost is 3,581.51 tugrugs and it is increased by 213.11 tugrugs compared with previous year at the same period. For 1 tons of coal cost, it reached to 18,333.24 tugrugs and rised by 4083.32 tugrugs compared with previous year.

## Debts and Credits

### Debts

In 2008 there was debt of 9,574.4 million tugrugs and from this amount, 32.8% or 3,135.3 million tugrugs accounted for spare parts, 26.2% was debt of Terex vehicle which is bought by loan of non-repayable aid from Japanese project.

Coal receivable from Power plants was accumulated and it resulted in debts for tax in the current year.

### Credits



Power plants.

## Human resource and Public relation

- In the current period, the company employed 553 workers, 176 of them were engineering technical workers. In the company 3 Advisory engineers, 10 Professional engineers, 4 Masters of Technical science and 1 Master of Economics are employing.
- At the end of 2008, 20% of the revenue that gained from coal price increase spent for salary. Salary was increased from 01 Feb, 2008 by 20% and from 16 Jul by 20% again. As result, a worker's average salary per month increased by 58.9 thousand tugrugs to 275.9 thousand tugrugs.



# FINANCIAL DATA

## Independent Auditor's Report

### Pantheje Midland Audit LLC

Authorized Experts in Accounting, Audit, Consultation, and Assessment

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Ulaanbaatar, Mongolia

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Fax: 976-11-319836

Date: 2009.03.12.

№ 4/19

#### INDEPENDENT AUDITORS' REPORT

#### TO THE SHAREHOLDERS OF "SHARIN GOL" JOINT STOCK COMPANY

We have audited Financial Statements including Balance Sheet as of December 31, 2008, Annual Income Statement ending the same day, Statement of Changes in Equity, and Cash Flow Statement, major accounting policies and other notes of "Sharin Gol" Joint Stock Company's /hereinafter to be referred to as the "Company"/, as reflected on pages 4-9.

#### Responsibilities of the Management on Financial Statements

It is responsibility of the Company management to produce and fairly present Financial Statements according to International Financial Reporting Standards, select its accounting policy, adhere to it throughout the report year, and organize its accounting in accordance with the legislation. It is also responsibility of the Management to ensure its assets storage, protection, and security, and create and implement internal control system to prevent different types of fraudulent activities.

#### Responsibilities of the Auditor

It is our responsibility to generate conclusions on these Financial Statements based on the audit performed. We have performed our audit in accordance with International Audit Standards issued by International Federation of Accountants. These Standards require us to plan and execute the audit to obtain evidence on the absence of material discrepancies in Financial Statements. The audit includes activities to verify justification of data reflected in financial statements based on testing. The auditor makes its decision on procedures to assess risks associated with potential material misreporting in Financial Statements due to errors or fraud. Assessments of these risks is made not to develop conclusions on effectiveness of the organization internal control system and the auditor considers internal control related to preparation and correct presentation of Financial Statements aimed at developing audit procedures appropriate to respective conditions. Also the audit besides assessing financial statements as a whole includes review of estimates made and accounting principles utilized by the management. We believe audit performed provides us with sufficient justification to generate conclusions on these Financial Statements.

## Auditors' Opinion

In our opinion Financial Statements of "Sharin Gol" Joint Stock Company produced as of December 31, 2008 correctly reflected the report period activities results and Cash Flow as required by International Financial Reporting Standards and relevant procedures and regulations in effect in Mongolia excluding items mentioned in the notes justification.

This opinion is valid alongside with the enclosed financial statements and notes number on the pages 7-34.





## Balance Sheet

### December 31, 2008 and 2007

	U.S. Dollars*	
	2008	2007
<b>ASSETS</b>		
<b>Non-current assets</b>		
Fixed assets (net)	2,601,398.74	2,577,679.92
Investments and other assets	142,943.59	6,627.22
<b>Total non-current assets</b>	<b>2,744,342.33</b>	<b>2,584,307.14</b>
<b>Current assets</b>		
Inventories	1,467,511.00	1,486,511.13
Receivables	3,807,642.26	5,777,737.67
Prepaid expenses	2,338.80	2,338.80
Cash and cash equivalent	491,721.65	82,694.68
<b>Total currents assets</b>	<b>5,769,213.70</b>	<b>7,349,282.27</b>
<b>TOTAL ASSETS</b>	<b>8,513,556.03</b>	<b>9,933,589.41</b>
<b>SHAREHOLDERS' EQUITY AND LIABILITIES</b>		
<b>Shareholders' equity</b>		
Share capital	570,523.79	570,523.79
Re-evaluation surplus	2,407,364.02	2,407,364.02
Shareholders' equity other section	1,341,333.24	1,341,333.24
Retained earning (loss)	(3,360,690.63)	(3,427,860.62)
<b>Total shareholders' equity</b>	<b>958,530.41</b>	<b>891,360.41</b>
<b>Liabilities</b>		
<b>Non-current liabilities</b>		
Long-term loan		1,925,049.31
Long-term liabilities	1,978,966.50	1,978,966.50
<b>Total non-current liabilities</b>	<b>1,978,966.50</b>	<b>3,904,015.81</b>
<b>Current liabilities</b>		
Current liabilities	5,535,008.97	4,646,932.52
Short-term bank loans		489,151.87
Dividend	39,043.26	
Income prepaid	2,006.89	2,128.79
<b>Total current liabilities</b>	<b>5,576,059.12</b>	<b>5,138,213.18</b>
<b>Total liabilities</b>	<b>7,555,025.63</b>	<b>9,042,229.00</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>8,513,556.03</b>	<b>9,933,589.41</b>

\*1 USD=1267.5 MNT, Mongolbank's official exchange rate of 31 December, 2008

# Statements of Income

For the year ended December 31, 2008 and 2007

	U.S. Dollars*	
	2008	2007
Sales Revenue	8,383,945.59	6,604,684.24
Sales Returns	(79,304.32)	(136,178.19)
Net Sales	8,304,641.26	6,468,506.05
Cost of Goods Sold	(7,483,309.39)	(5,863,281.67)
Total Profit (Loss)	821,331.88	605,224.38
General Management Expenses	(368,051.03)	(271,772.28)
<b>Operational Profit (Loss)</b>	<b>453,280.85</b>	<b>333,452.10</b>
Non-principal Production and Services Gain (Loss)	(118,528.04)	(105,213.62)
Interests, Penalties, Discounts Gain (Loss)	(43,478.67)	(8,764.85)
Forex Re-evaluation Surplus (Deficit)	65,292.27	(4,278.60)
Other Non-Operational Gain (Loss)	(292,422.21)	(52,707.41)
<b>Non-Operational Gain (Loss)</b>	<b>(389,136.65)</b>	<b>(170,964.46)</b>
Pre-Tax Profit (Loss)	64,144.20	162,487.64
Income Tax Expenses	(15,899.86)	(25,354.95)
<b>Net Profit (Loss)</b>	<b>48,244.34</b>	<b>137,132.69</b>
Per Share Profit (Loss)	0.01	0.02

\*1 USD=1267.5 MNT, Mongolbank's official exchange rate of 31 December, 2008

# Statements of Changes of Equity

For the year ended December 31, 2008 and 2007

	U.S. Dollars*				
	Capital Stock	Re-Evaluation Reserve	Other Part of Equity	Retained Earnings	Total
Balance as of December 31, 2007	570,523.79	2,407,364.02	1,341,333.24	(3,427,860.62)	891,360.41
Discount of tax law				114,773.65	114,773.65
Report Year Profit (Loss)				48,244.34	48,244.34
Dividend				(95,848.00)	(95,848.00)
Balance as of December 31, 2008	570,523.79	2,407,364.02	1,341,333.24	(3,264,842.64)	958,530.41

\*1 USD=1267.5 MNT, Mongolbank's official exchange rate of 31 December, 2008

# Statements of Cash flows

For the year ended December 31, 2008 and 2007

	U.S. Dollars*	
	2008	2007
<b>Operating Activities Cash Flow</b>		
Operating Revenues	9,146,483.59	6,489,448.85
Operating Expenses	(8,234,449.78)	(6,732,177.36)
<b>Net Cash From Operating Activities</b>	<b>912,033.82</b>	<b>(242,728.51)</b>
<b>Investing Activities Cash Flow</b>		
<b>Net Cash From Investing Activities</b>	-	-
<b>Financing Activities Cash Flow</b>		
Loan from Bank		717,948.72
Loan Payments	(489,151.87)	(394,477.32)
Various Donations	(16,326.15)	(10,557.95)
Interest and Bonus Revenues	97.89	0.23
Forex Rate Difference	2,373.30	(1,006.32)
<b>Net Cash From Financing Activities</b>	<b>(503,006.84)</b>	<b>311,907.36</b>
<b>Total Net Cash Flow</b>	<b>409,026.98</b>	<b>69,178.85</b>
Beginning Balance of Cash and Cash Equivalent	82,694.68	13,515.83
Ending Balance of Cash and Cash Equivalent	491,721.65	82,694.68

\*1 USD=1267.5 MNT, Mongolbank's official exchange rate of 31 December, 2008